

June 12, 1998

Tobacco Bill Faces Major Revenue Shortfall

According to RPC estimates, the spending called for in S. 1415, as amended, will dramatically exceed the revenue the legislation is expected to generate. Based on JCT and CBO figures, the bill's spending commitments will likely exceed revenues by nearly 60 percent over both the five- and ten-year estimating windows. This estimate is based on RPC's original cost analysis (Commerce-2) and the anticipated cost of those amendments adopted thus far during floor consideration of the bill — both sets of estimates relied on JCT and CBO figures.

Our analysis highlights six basic cost and revenue estimates with respect to the bill in its current form: 1) S. 1415's overall revenue; 2) Cost of the floor amendments; 3) Subtotal: Revenues minus amendment costs; 4) S. 1415's original spending provisions (those contained in Commerce-2) by mandatory and discretionary spending; 5) Illustrative comparisons of S. 1415's revenues versus various spending commitments; and 6) Percentage comparisons of S. 1415's revenues versus its overall spending commitments. See spending and revenue attachments for details.

S. 1415 Scorecard: As of June 12, 1998 (IN BILLIONS OF DOLLARS)

	<u>Five Years</u>	<u>Ten Years</u>
S. 1415 Major Revenues	\$65	\$151
Floor Amendment Costs	(\$35)	(\$68)
Original S. 1415 Spending	(\$65)	(\$151)
Total Spending Commitments	(\$100)	(\$219)
Cost Difference	(\$35)	(\$68)
Percent Difference	-54%	-45%

Assumes full funding for all discretionary programs and 5-year costs for Coverdell (as authorized). Revenues included only the two primary streams -- annual industry payments and look-back penalties.

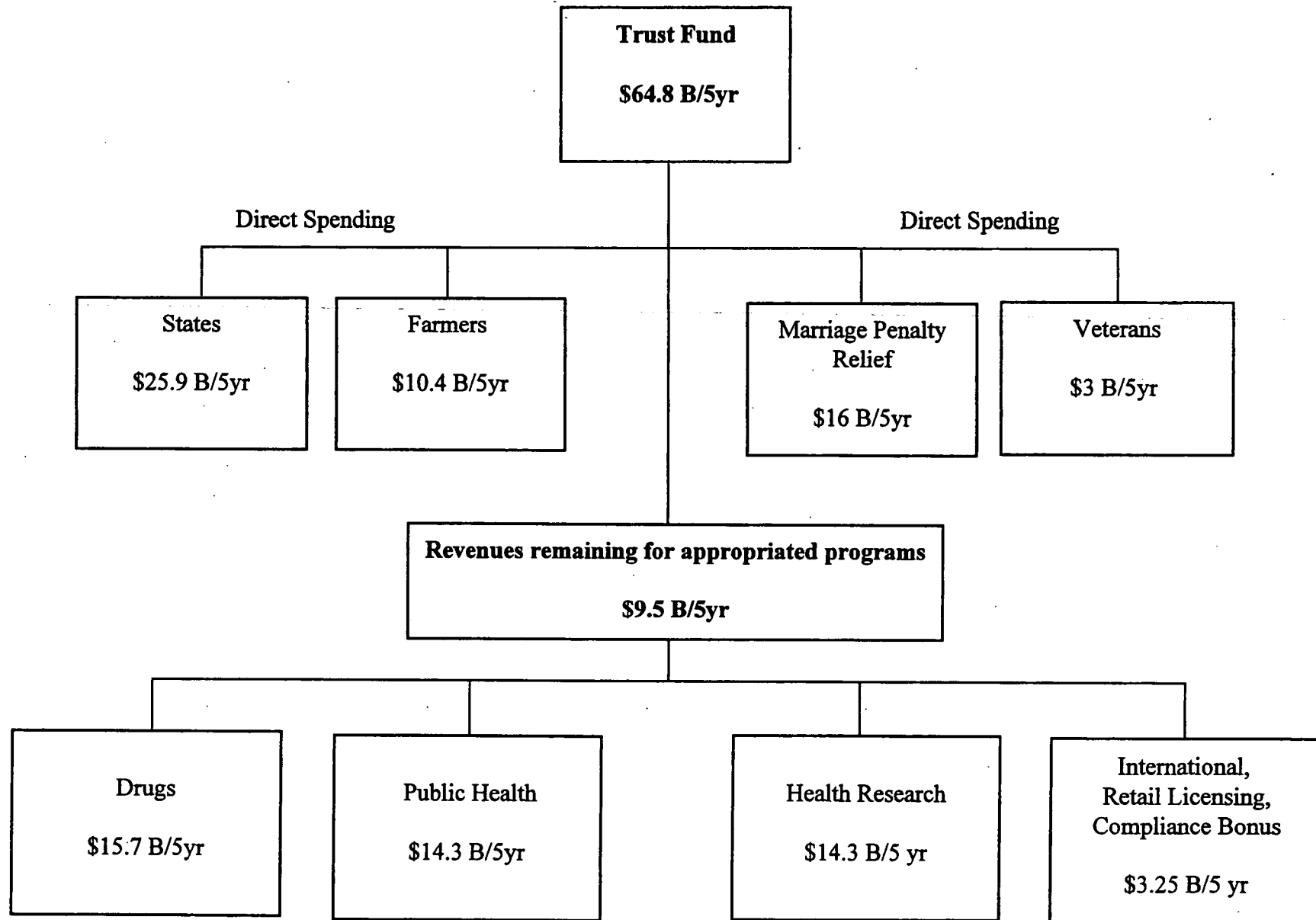
Figures are rounded for presentation purposes.

- I. **S. 1415's Revenues:** The trust fund according to RPC calculations, based on JCT figures, will receive \$64.8 billion over the next five years and \$150.85 billion over the next ten years. [See May 22 RPC paper, "Revenue Effect of Commerce-2" for further details.]

- II. Floor Amendment Costs:** Thus far, amendments have added commitment costs (it is important to remember that in the case of Coverdell, this money is only authorized and not appropriated so full spending cannot be assumed) of \$34.7 billion over five years and either \$67.7 billion or \$83.4 billion over 10 years — the differing 10-year figure is due to whether the Coverdell amendment is counted for only 5-year costs (as it is authorized) or taken out to 10-year costs, assuming it would not be allowed to lapse.
- III. Subtotal:** Revenues minus amendments: Assuming full funding of Coverdell (either 5 or 10 years), there would remain: \$30.1 billion over 5 years and either \$67.5 billion or \$83.2 billion over 10 years.
- IV. S. 1415's Original Spending:** The original S. 1415 would have spent all its revenue: \$36.3 billion over 5 years; \$77.8 billion over 10 years in mandatory spending; and \$31.8 billion over 5 years or \$79.5 billion over 10 years in discretionary spending. The discrepancy between original revenues and original spending (see attached table) is due to the fact that the displayed revenues comprise only the two largest of several revenue streams. If Coverdell (5-year version) is added, discretionary commitments rise to \$47.4 billion over 5 years and \$95.2 billion over 10 years. [See May 22 RPC paper, "Spending in the Commerce-2 Tobacco Bill Substitute" for further details.]
- V. Illustrative Comparisons:** If all amendments were fully funded and \$0 was left for discretionary programs originally in S. 1415, revenues would be overspent by \$6.1 billion over 5 years and either \$10.3 billion overspent or \$5.4 billion underspent (depending on Coverdell) over 10 years.
- If one were to count only S. 1415's mandatory spending (both original and from amendments), then there would be \$9.5 billion over 5 years and \$21 billion over 10 years remaining in available revenues. Mandatory spending, because it is not subject to appropriation, represents the least amount that can be spent under the bill.
 - If all other commitments are added — full potential costs of amendments and original programs — revenues would be overspent by \$37.9 billion over 5 years and \$74.2 billion over 10 years if Coverdell is assumed for 5 years only. If funding for the Coverdell amendment is assumed for 10 years, overspending will amount to \$37.9 billion over 5 years and \$89.9 billion over 10 years.
- VI. Percentage Comparisons:** If all commitments are added — i.e., the full potential costs of amendments and original programs — revenues would be overspent by 58.5 percent over 5 years and 49.2 percent over 10 years if Coverdell is assumed for 5 years only; if funding for Coverdell is assumed for 10 years, overspending would be 58.5 percent over 5 years and 59.7 percent over 10 years.

Staff Contact: Dr. J.T. Young, 224-2946

S. 1415:
5 YEAR FLOW CHART



S. 1415: Spending and Revenue Provisions, as amended (06/12/98)

(all figures in billions of dollars)

	One-year	Five-Year	Ten-year
S. 1415 REVENUES: COMMERCE 2			
Underlying S. 1415 Funding -- 2 primary sources (annual payments & look-back penalties)			
Net Annual Tobacco Industry Payments	64.8	138.962	
Total S. 1415 Revenues	64.8	150.85	
FLOOR AMENDMENTS TO S. 1415			
Coverdell Drug Prevention Amendment (assuming 10 year costs)	15.675	31.35	
Coverdell Drug Prevention (as authorized for 5 yrs)	15.675	15.675	
Gramm Marriage Penalty Tax Relief & Self-employed Insurance Deductibility	16	46	
McCain Veterans' Smoking-related costs	0.6	3	6
Total Amendment Changes (assuming 5-yr Coverdell)	34.675	67.675	
Total Amendment Changes (assuming 10-yr Coverdell)	34.675	83.35	
COMPARISON SUBTOTAL: REVENUES MINUS AMENDMENTS			
Net S. 1415 Revenues after amendment costs (5yr Coverdell)	30.125	83.175	
Net S. 1415 Revenues after amendment costs (10yr Coverdell)	30.125	67.5	
UNDERLYING S. 1415 SPENDING -- BY CATEGORY			
Mandatory			
State Share: 40% of annual trust fund payments	25.92	55.5848	
Farmer Share: 16% of annual trust fund payments through 2008	10.368	22.23392	
Total State and Farmer Spending: TOTAL	36.288	77.81872	
Discretionary			
Public Health Allocation: 22% of annual payments plus all penalties	14.256	42.45964	
Health and Health-related Research Allocation: 22% of annual payments	14.256	30.57164	
3 Programs: Int'l tobacco \$'s, State retail licensing, & State compliance bonus	0.65	3.25	6.5
Subtotal: S. 1415's underlying discretionary programs	0.65	31.762	79.53128
Total Discretionary authorizations: S. 1415 plus 5yr Coverdell amendment	47.437	95.20628	
ILLUSTRATIVE COMPARISONS			
1. Net Effect of S. 1415: If all amendments (10-year Coverdell) & \$0 for underlying discretionary	-6.163	-10.3187	
2. Net Effect of S. 1415: If all amendments (5-year Coverdell) & \$0 for underlying discretionary	-6.163	5.35628	
3. Net Effect of S. 1415: If only Mandatory spending (underlying + amendments) is assumed	9.512	21.03128	
4. Net Effect of S. 1415 w/ 5-yr Coverdell, all amendments & pre-existing programs	-37.925	-74.175	
5. Net Effect of S. 1415 if w/10-yr Coverdell, all amendments & pre-existing programs	-37.925	-89.85	
PERCENTAGE COMPARISONS			
Commitments versus Revenues: assuming 5-year Coverdell	-58.53%	-49.17%	
Commitments versus Revenues: assuming 10-year Coverdell	-58.53%	-59.56%	

* Presentation is for illustrative purposes only: Amendments have explicitly lowered the available annual payment pool on which discretionary percentages are based